

Congress of the United States  
CONGRESSIONAL OVERSIGHT PANEL

## Opening Statement of J. Mark McWatters

### Congressional Oversight Panel Hearing with Treasury Secretary Timothy Geithner

June 22, 2010

Thank you Professor Warren.

I very much appreciate the attendance of Secretary Geithner and I look forward to hearing his testimony.

It is my hope that Secretary Geithner will assist the Panel in addressing a number of interesting questions, including the following:

- Is Treasury contemplating the allocation of available TARP funds to any *new* programs or the allocation of additional TARP funds to any *existing* programs?
- Is Treasury contemplating the allocation of TARP funds to any *financial* or *non-financial institution*, such as AIG, Citigroup, Chrysler, GM or GMAC?
- Will the taxpayers receive *repayment in full in cash* of their TARP investments in these institutions as well as the other TARP recipients?
- What is Treasury's current *exit strategy* with respect to these institutions as well as the other TARP recipients?
- Has TARP enshrined into our law the concept of "too-big-to-fail"? In other words, has TARP established an "implicit guarantee" from the Federal government for the benefit of our largest financial and non-financial institutions? Will the pending financial reform legislation ratify the implicit guarantee?
- Would Treasury yet again allocate additional TARP funds to Goldman Sachs, AIG, Citigroup, Bank of America and a group of other systemically significant firms if they notified Treasury *today* that they were experiencing a severe liquidity and solvency crisis? How would the answer change if these institutions approached Treasury or the New York Fed *after* the pending financial reform legislation is enacted? Would the FDIC simply proceed to *liquidate* these institutions in an orderly and complete manner and, if so, are these institutions too interconnected with the global financial system to liquidate without triggering a cascade of unintended consequences? Isn't this what we were told in the last quarter of 2008 with respect to Goldman Sachs, AIG, Citigroup, Bank of America, among others—that certain institutions were simply too-big-and-too-interconnected-to-fail and, as such, could not under any circumstances be permitted to liquidate. If such event, is the resolution authority included in the pending financial

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reform legislation merely a modified *TARP 2* bailout mechanism dressed-up as resolution authority?

- AIG was regulated by approximately 400 domestic and international regulators and they, along with Wall Street, Main Street and most investment professionals, *completely missed* the vast systemic risks that were percolating within AIG. How will the addition of one more regulator—a systemic regulator proposed under the pending financial reform legislation—and a few more regulations help to solve the problem? Where do Treasury, the FDIC, the SEC and the CFTC expect to find these *all-omniscient, sage-like, super-regulators* who are competent to cull out systemic risks that others have missed? Even if the super-regulators timely identify such risks, how will they convince Wall Street, Main Street, other regulators, the global financial community and Congress that the risks are indeed legitimate and worthy of prompt action at great cost to the taxpayers and the financial community? What if in early 2006 a systemic regulator had concluded that subprime lending and securitized debt posed a threat to the global financial system? Who would have believed such analysis *at that time* and would the systemic regulator really have had the confidence and the competence to effectively persuade the members of the global financial community of the merits of its case?
- Why did former Federal Reserve Chair Volcker in an interview on CNBC and as reported by the *Huffington Post* state that the resolution authority provided in the proposed financial reform package is a "workable proposition for anything *short of these biggest banks*."<sup>1</sup> [Emphasis added.] The *Huffington Post* also reported that Professor Summers has stated that ending too-big-to-fail is the Administration's "central objective" and that resolution authority is the "most crucial" part of the plan. Does Chairman Volcker believe that it will be all but impossible to liquidate the too-big-to-fail financial institutions during the next financial crisis in an effective manner? Does he instead believe that TARP 2 will be required to rescue the institutions? Which of Professor Summers or Chairman Volcker is correct in his assessment of the effectiveness of the proposed financial reform legislation with respect to the too-big-to-fail financial institutions?
- Why did Treasury on June 11 issue a press release implying that the TARP program has been "profitable" even though Treasury itself expects the taxpayers to lose over \$105 billion from their "investments" in the program and the Congressional Budget Office expects the taxpayers to lose approximately \$109 billion?<sup>2</sup>
- Why did Ed Whitacre, the CEO of General Motors, imply in a television commercial that GM has repaid all of its TARP funds even though the taxpayers have yet to receive repayment *in cash* for approximately \$40 billion of TARP funds advanced to GM, and

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<sup>1</sup> See "Volcker: New Government Powers Won't Be Able To Dismantle Megabanks; Too Big To Fail Lives Despite Reform Bill," *The Huffington Post*, June 15, 2010, at [http://www.huffingtonpost.com/2010/06/15/volcker-new-government-po\\_n\\_612392.html](http://www.huffingtonpost.com/2010/06/15/volcker-new-government-po_n_612392.html).

<sup>2</sup> See "Treasury Department Announces TARP Milestone: Repayments to Taxpayers Surpass Tarp Funds Outstanding," U.S. Department of the Treasury, June 11, 2010, at <http://www.treas.gov/press/releases/tg742.htm>.

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the Congressional Budget Office projects that the taxpayers will lose approximately \$34 billion of their TARP funded “investments” in GM, Chrysler and GMAC?<sup>3</sup>

- When does the Administration plan to return Fannie Mae and Freddie Mac to the private sector? How does the Administration plan to accomplish this goal? On December 24, 2009 Treasury announced that it would provide *unlimited* support for Fannie and Freddie. How much money has Treasury allocated to Fannie and Freddie since the end of last year and to what purpose have the GSEs employed the funds? How much additional money does Treasury anticipate that it will allocate to Fannie and Freddie?

In addition, by a unanimously vote (4-0, with the recusal of Superintendent Neiman), the Panel recently issued a report on the taxpayer funded bailout of AIG.<sup>4</sup> I would welcome the Secretary’s observations regarding the report including the following five conclusions reached by the Panel:

- The government failed to exhaust all options before initially committing \$85 billion in taxpayer funds to the bailout of AIG.
- The rescue of AIG distorted the marketplace by transforming highly risky derivatives bets into fully guaranteed payment obligations.
- Throughout its rescue of AIG, the government failed to address perceived conflicts of interest.
- Even at this late stage, it remains unclear whether taxpayers will ever be repaid in full.
- The government’s rescue of AIG continues to have a poisonous effect on the marketplace.

Also, by a unanimously vote (4-0, with the recusal of Mr. Silvers), three months ago the Panel issued a report on the taxpayer funded bailout of GMAC.<sup>5</sup> I would welcome the Secretary’s observations regarding the report including the following three conclusions reached by the Panel:

- Treasury and the Federal Reserve made critical decisions during the height of the financial crisis that severely constrained their options for addressing GMAC's uncertain future.

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<sup>3</sup> See youtube.com at <http://www.youtube.com/watch?v=SSNPFVLIWjI>.

<sup>4</sup> See “The AIG Rescue, Its Impact on Markets, and the Government’s Exit Strategy,” TARP Congressional Oversight Panel, June 10, 2010, at <http://cop.senate.gov/documents/cop-061010-report.pdf>.

See “Additional Views of J. Mark McWatters,” June 10, 2010, at <http://cop.senate.gov/documents/cop-061010-report-mcwatters.pdf>.

<sup>5</sup> See “The Unique Treatment of GMAC Under the TARP,” TARP Congressional Oversight Panel, March 10, 2010, at <http://cop.senate.gov/documents/cop-031110-report.pdf>.

See “Additional Views of J. Mark McWatters and Paul S. Atkins, March 10, 2010, at <http://cop.senate.gov/documents/cop-031110-report-atkinsmcwatters.pdf>.

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- Treasury provided GMAC with TARP funds under the Auto Industry Financing Program, yet GMAC's bailout dollars also supported crippling losses in its mortgage lending business.
- Treasury has not required GMAC to lay out a clear path to viability or a strategy for fully repaying taxpayers.

Thank you Mr. Secretary for joining us today and I look forward to our discussion.